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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 6/30/77

TAGS: EAID, EFIN, HK

SUBJECT: PROPOSED ADB LOAN FOR SHA TIN URBAN DEVELOPMENT
PROJECT (HONG KONG)

SUMMARY: ADB MANAGEMENT PROPOSES \$20.5 MILLION EQUIV-
ALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO HONG KONG TO
FINANCE A PORTION OF THE FOREX COST OF CONSTRUCTION OF TWO
HOUSING ESTATES AND ASSOCIATED FACILITIES FOR LOWER INCOME
GROUPS AT SHA TIN, ONE OF THE NEW TOWNS BEING DEVELOPED IN NEW
TERRITORIES AREA. USADB RECOMMENDS FAVORABLE NAC ACTION.

END SUMMARY.

1. ADB DOC. R32-77 WITH ATTACHEMENTS DESCRIBING PROPOSED
LOAN POUCHED ADDRESSEES MARCH 24. BOARD CONSIDERATION
SCHEDULED APRIL 14.

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2. ADB MANAGEMENT PROPOSING \$20.5 MILLION LOAN FROM
ORDINARY CAPITAL RESOURCES TO GOVT OF HONG KONG (HK).
PROCEEDS WILL FINANCE PART OF THE FOREX COST OF CONSTRUC-
TION OF TWO HOUSING ESTATES, FOUR PRIMARY AND FOUR SECON-
DARY SCHOOLS, A HEALTH CLINIC AND A FIRE STATION, AS PART
OF AN OVERALL \$100.7 MILLION URBAN DEVELOPMENT PROJECT AT
SHA TIN, A NEW TOWN IN THE NEW TERRITORIES AREA. OF THE

REMAINING \$11.8 MILLION FOREX COSTS, \$6 MILLION WILL BE FINANCED FROM EXISTING EURO-CURRENCY STANDBY FACILITY, \$5.8 MILLION BY HONG KONG GOVT. GOVT WILL ALSO MEET LOCAL CURRENCY COSTS ESTIMATED AT \$68.4 MILLION. PROPOSED TERMS ARE 13 YEAR AMORTIZATION INCLUDING 3 YEAR GRACE PERIOD, 8.7 PERCENT INTEREST. GOVT OF HONG KONG TO BE BORROWER, HONG KONG HOUSING AUTHORITY AND PUBLIC WORKS DEPT THE EXECUTING AGENCIES.

3. HONG KONG'S ECONOMY HAS RECOVERED STRONGLY FROM 1974-75 RECESSION. REAL GDP ROSE ESTIMATED 16.2 PERCENT IN 1976 ON STRENGTH OF 50 PERCENT INCREASE IN EXPORT EARNINGS. PRICE INFLATION HAS BEEN HELD TO 3 PERCENT P.A. OR LESS SINCE 1974, CURRENCY HAS APPRECIATED AGAINST U.S. DOLLAR (BY 9 PERCENT IN 1976), AND PER CAPITAL GNP HAS REACHED ESTIMATED US\$2,080 (END-QUARTER). NEVERTHELESS, HONG KONG IS BESET WITH SEVERE PROBLEMS ARISING TO LARGE EXTENT FROM ITS EXTREMELY HIGH POPULATION DENSITY.

4. POPULATION OF HONG KONG ROSE FROM 0.6 MILLION IN 1945 TO 4.4 MILLION AT PRESENT, LARGELY ON STRENGTH OF IMMIGRATION FROM CHINA. AS LARGE PART OF COLONY'S TERRITORY IS MOUNTAINOUS AND UNSUITED FOR HOUSING, ABOUT 78 PERCENT OF POPULATION ARE CONCENTRATED ON ONLY 12 PERCENT OF LAND AREA, MAINLY HONG KONG ISLAND AND KOWLOON PENINSULA. COLONY'S POPULATION GROWTH RATE HAS SLOWED MARKEDLY IN RECENT YEARS, TO A PRESENTLY ESTIMATED 1.9 PERCENT P.A.; HOWEVER, POPULATION DENSITY IN THE URBAN AREAS IS, AT 21,000 PEOPLE PER SQ. KM., ONE OF THE WORLD'S LIMITED OFFICIAL USE

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HIGHEST (IF NOT THE HIGHEST). MOST OF HONG KONG'S RESIDENTS LIVE IN SHARED OR OVERCROWDED CONDITIONS, WITH ABOUT ONE-THIRD OF HOUSEHOLDS BELOW THE 35 SQ. FT. PER PERSON STANDARD THAT WHO CONSIDERS ABSOLUTE MINIMUM PERMISSABLE FOR HUMAN HABITATION. SUB-STANDARD LIVING CONDITIONS AND RELATED SOCIO-ECONOMIC PROBLEMS (CRIME, DRUG ADDICTION, MENTAL DISORDERS, ETC.) ARE MAJOR CONCERN OF GOVT.

5. ABOUT 48 PERCENT OF HK POPULATION LIVE IN PUBLIC HOUSING; 7 PERCENT ARE SQUATTERS; 1 PERCENT LIVE ON BOATS; AND 44 PERCENT LIVE IN PRIVATE HOUSING EITHER AS OWNERS OR TENANTS. PRIOR TO LATE 1960'S, HK HOUSING PROGRAMS WERE BASED ON SHORT-TERM CONSIDERATIONS, IN RESPONSE TO IMMIGRATION OR TO DISASTERS (FIRES, FLOODS). UNTIL MARCH 1973, PUBLIC HOUSING WAS UNDERTAKEN BY FOUR AGENCIES: (A) HONG KONG HOUSING SOCIETY, WHICH WITH AID OF GOVT LOANS HAS COMPLETED LOW-COST HOUSING FOR 134,000 PEOPLE IN LOW-INCOME CATEGORY; (B) RESETTLEMENT DEPARTMENT,

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HICH HAS PROVIDED BASIC HOUSING, MUCH OF IT RUDIMENTARY SHELTERS WITH BARE ROOMS AND COMMUNAL FACILITIES, FOR SQUATTERS AND VICTIMS OF NATURAL CALAMITIES NUMBERING (AN AUTHORIZED) 1,164,916; (C) HOUSING AUTHORITY (HHA), FORMED IN 1954, WHICH PROVIDES RELATIVELY COMFORTABLE (I.E. AT THE STANDARD OF 35 SQ. FT. PER PERSON) SELF-CONTAINED FLATS FOR SOME 211,000 PERSONS IN THE THEN HK \$300-900 PER MONTH INCOME BRACKET; (D) PUBLIC WORKS DEPT (PWD), WHICH PROVIDES LOW-COST, BASIC HOUSING IN THE SO-CALLED GOVT LOW-COST HOUSING ESTATES (GLCH) FOR SOME 401,300 PEOPLE. IN MARCH 1973 HHA WAS RECONSTITUTED AND ABSORBED ACTIVITIES OF ITS PREDECESSOR, THE RESETTLEMENT DEPT, AND, AS FAR AS NEW CONSTRUCTION IS CONCERNED, PWD. FOR ADMIN AND MANAGEMENT PURPOSES, FORMER RESETTLEMENT ESTATES ARE NOW REFERRED TO AS GROUP B ESTATES, ALL OTHER HOUSING AS GROUP A. HHA, EXCEPT FOR ACTIVITIES OF HOUSING SOCIETY, HAS RESPONSIBILITY FOR FUTURE PUBLIC HOUSING IN HK.
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6. GOVT'S POLICY FOR ALLEVIATING HOUSING PROBLEM, AS EXPRESSED IN OUTLINE PLAN FIRST FORMULATED IN 1970, INVOLVES DECENTRALIZATION TO NEW TERRITORIES ALONG WITH IMPROVEMENT OF ENVIRONMENT IN EXISTING URBAN AREAS. FIFTY PERCENT OF NEW HOUSING IN NEXT TEN YEARS WILL BE PROVIDED IN THREE NEW TOWNS IN NEW TERRITORIES - AT SHA TIN, TSUEN WAN AND TUEN MUN. EACH NEW TOWN IS TO PROVIDE BALANCED AND SELF-CONTAINED COMMUNITIES, WITH BOTH PUBLIC AND PRIVATE RESIDENTIAL DEVELOPMENT AND INCORPORATING COMMUNITY FACILITIES AND EMPLOYMENT OPPORTUNITIES. TEN-YEAR HOUSING PROGRAM, APPROVED IN OCT 1972, SET GOAL OF PROVIDING EVERY LOW-INCOME FAMILY WITH A CONTAINED FLAT WITH AT LEAST 35 SQ. FT. PER PERSON OF LIVING SPACE. LATEST VERSION OF PROGRAM, KNOWN AS HOUSING PROGRAM PLAN PUBLISHED IN JULY 1975, FORESEES PUBLIC HOUSING FOR ABOUT 50 PERCENT OF POPULATION BY 1985 OF WHICH ONE HALF (1.6 MILLION) WOULD BE IN NEW TOWNS. THOSE EXPECTED TO BENEFIT ARE SQUATTERS, PEOPLE LIVING ON BOATS, OCCUPANTS OF EARLIEST RESETTLEMENT ESTATES, AND OCCUPANTS OF GLCH ESTATES. PREREQUISITES FOR NEW TOWN SITES ARE: PROXIMITY TO AND GOOD COMMUNICATIONS WITH KOWLOON; AN EXISTING POPULATION CENTER, SUITABLE FOR EXPANSION; FLAT LAND OR SHALLOW SEA SUITABLE FOR RECLAMATION.

7. ONE OF THE BASIC PLAN OBJECTIVES IS TO RESTRICT PUBLIC HOUSING ELIGIBILITY TO LOW-INCOME FAMILIES UNABLE TO AFFORD PRIVATE UNSHARED LIVING QUARTERS WITHOUT SPENDING MORE THAN 20 PERCENT OF INCOME ON HOUSING. HOWEVER, PRESENT HHA POLICY IS NOT FULLY IN ACCORD WITH THIS POLICY SINCE NEW TOWNS ADMIT CERTAIN CATEGORIES OF PEOPLE - I.E. PEOPLE FROM ESTATES IN PROCESS OF RESETTLEMENT, COMPASSIONATE CASES, ETC. - WITHOUT REGARD TO INCOME LEVEL. UNLESS PRESENT POLICY IS CHANGED, BY 1984 ABOUT 17 PERCENT OF THOSE IN PUBLIC HOUSING WILL BE OVER 20 PERCENT INCOME LIMIT. THIS FACTOR ALSO IS LARGELY RESPONSIBLE FOR LATEST LIMITED OFFICIAL USE

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ESTIMATE (APRIL 1976) THAT ABOUT 109,000 ELIGIBLE HOUSEHOLDS WILL NOT HAVE FOUND PUBLIC LIVING QUARTERS BY 1984/85. MOREOVER, PRESENT PLAN SHOWS CERTAIN OTHER DEFICIENCIES, NOTABLY IN THE PROPOSED SPREAD IN SIZE (NO. OF PERSONS PER UNIT) OF LIVING QUARTERS. TO HELP REMEDY THESE SHORTCOMINGS, BANK HAS RECOMMENDED, AND GOVT AGREED, ENLARGEMENT OF HHA'S RESEARCH AND STATISTICS SECTION AND ITS STRENGTHENING THROUGH INPUTS FROM TWO UNIVERSITIES IN HK. UNIT WILL MAINTAIN CONTINUOUS LIAISON WITH BANK.

8. GOVT-APPOINTED CONSULTANTS COMPLETED FIRST STUDY FOR

DEVELOPMENT OF SHA TIN NEW TOWN (STNT) IN 1973. BASED ON THIS, TWO-STATE IMPLEMENTATION PROGRAM WAS DRAWN UP IN 1974. AT REQUEST OF GOVT, BANK FACT-FINDING MISSION VISITED HKI IN MAY 1976, FOLLOWED BY APPRAISAL MISSION IN AUGUST 1976. PROPOSED PROJECT REFLECTS BOTH CONSULTANTS' STUDY AND BANK'S FINDINGS.

9. PLANNING AREA OF STNT COVERS 1,740 HA. COMPRISING VALLEY OF SHING MUN RIVER AT HEAD OF SHA TIN HOI (TIDE COVE) AND LAND RECLAIMED FROM COVE. VALLEY IS SURROUNDED ON THREE SIDES BY HILLS RISING TO 300 METERS AND IS LOCATED ABOUT 10 KM. FROM KOWLOON. STNT IS LINKED TO KOWLOON BY RAIL AND IS WELL SERVED BY ROADS. PRESENT POPULATION IS ABOUT 40,000 INCLUDING 10,000 LIVING IN

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NEW HOUSING ESTATES. ORIGINALLY INTENDED AS A DORMITORY TOWN OF 270,000, IT WAS DECIDED IN EARLY 1970S TO AIM FOR A SELF-CONTAINED NEW TOWN OF 520,000. ABOUT 60 PERCENT OF POPULATION WILL LIVE IN 11 PUBLIC HOUSING ESTATES, REMIANDER IN PRIVATE ESTATES. EMPLOYMENT OPPORTUNITIES (LIGHT INDUSTRIES AS WELL AS NECESSARY SERVICE INDUSTRIES) ARE PLANNED FOR 100,000. TOWN CENTER WILL CONTAIN CIVIC CENTER, GOVT OFFICES, RAILWAY STATION, AND COMMUNITY SERVICES SUCH AS SCHOOLS, HOSPITALS, ETC. WILL BE DISTRIBUTED THROUGHOUT NEW TOWN. HIGHER DENSITY POPULATION WILL BE LOCATED ON FLAT, MOSTLY RECLAIMED AREAS ALONG RIVER CHANNEL; LOWER DENSITY POPULATION MOSTLY ON ELEVATED GROUND. LANDSCAPE AND ENVIRONMENTAL ASPECTS ARE BEING

GIVEN CAREFUL ATTENTION, ESPECIALLY IN VIEW OF VALLEY'S
POOR NATURAL VENTILATION.

10. TOTAL DEVELOPMENT COSTS OF STNT ARE ESTIMATED AT
\$862 MILLION, NOT INCLUDING AN ESTIMATED \$82 MILLION
ANTICIPATED FROM PRIVATE SECTOR. STNT WILL BE
DEVELOPED IN TWO STAGES:

STATE I- COVERS CENTRAL AREA, INCLUDING FIVE PUBLIC
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HOUSING ESTATES AND RELATED FACILITIES; AND AREAS FOR
SEWAGE TREATMENT PLANT AND FOR INDUSTRIAL ESTATES. ALL
OF COMPONENTS PROPOSED FOR BANK FINANCING (SEE PARA 11)
ARE IN PHASE I. LEK YUEN, FIRST PUBLIC HOUSING ESTATE
IN STNT ACCOMMODATING 23,000 PEOPLE, IS NEAR COMPLETION
AND PARTLY OCCUPIED. WORK ON WO CHE ESTATE HAS BEGUN AND
IS SCHEDULED FOR COMPLETION BY 1977-78, AND DESIGN WORK
FOR OTHER ELEMENTS OF STAGE I ARE WELL UNDERWAY;

STAGE II - WILL COVER REMAINING SIX PUBLIC HOUSING
ESTATES AND RELATED FACILITIES. PRELIMINARY OUTLINE PLANS
HAVE BEEN COMPLETED AND ARE EXPECTED BE REFINED FOLLOWING
FEASIBILITY STUDY BEGUN IN 1976.

11. PROJECT COMPONENTS, ALL ELEMENTS OF STAGE I DEVELOP-
MENT OF STNT, ARE:

(A) WO CHE PUBLIC HOUSING ESTATES (PHASE II) - COM-
PRISING 3,000 BLOCKS IN DIFFERENT SIZES IN SIX MULTI-STOREY
BLOCKS TO ACCOMMODATE 28,000 PERSONS; AND INCLUDING KINDER-
GARTEN, NURSERIES, AND MANAGEMENT OFFICES;

(B) SHA KOK PUBLIC HOUSING ESTATE-COMPRISING 5,000
FLATS IN DIFFERENT SIZES IN NINE MULTI-STOREY BLOCKS TO
ACCOMMODATE 33,000 PERSONS; AND INCLUDING KINDERGARTEN, ETC.;

(C) ESTATE SCHOOLS - TWO PRIMARY AND THREE
SECONDARY SCHOOLS IN WO CHE, TWO PRIMARY AND ONE SECONDARY
SCHOOL IN SHA KOK; EACH PRIMARY SCHOOL TO ACCOMMODATE ABOUT
2,100 AND EACH SECONDARY SCHOOL ABOUT 1,200 STUDENTS,
RESPECTIVELY;

(D) GENERAL HEALTH CLINIC- TO PROVIDE FAMILY HEALTH
SERVICES, OUT-PATIENT SERVICES, FAMILY PLANNING AND
FACILITIES FOR TEACHING OF MEDICINE;

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(E) DIVISIONAL FIRE STATION - TO SERVE ALL OF STNT
SUPPORTED BY THREE SUBDIVISIONAL STATEIONS; WILL BE FIVE-
BAY STATION WITH FULL ACCOMMODATIONS AND SERVICE FOR FIVE
FIRE-FIGHTING APPLIANCES;

(F) COMMERCIAL COMPLEX FOR SHA KOK - FACILITIES
FOR CAR PARKING, LIBRARY, YOUTH CENTER, COMMUNITY HALL,
MARKET STALLS, RESTAURANTS, CAFETERIAS AND FOOD STALLS,
SPACE FOR BANKS, OFFICES, AND SHOPS.

12. TOTLA PROJECT COST ESTIMATED AT US\$100.7 MILLION
EQUIVALENT. FOREX PORTION IS ESTIMATED AT \$32.7 MILLION
OF WHICH BANK'S SHARE WOULD BE \$20.5 MILLION, COVERING
A PORTION OF THE COST OF CONSTRUCTION OF THE SUPERSTRUCTURE
OF WO CHE (PHASE II) AND SHA KOK ESTATES, AND ALL OF THE
COST OF THE ESTATE SCHOOLS, HEALTH CLINIC, AND FIRE
STATION. PRINCIPAL ITEMS TO BE FINANCED ARE (IN MILLIONS):
CEMENT, \$3.6; CIVIL WORKS, \$8.1; BUILDING SERVICES
(ELECTRICAL INSTALLATIONS, ETC.), \$2.5; ELEVATORS, \$2.2;
CONTINGENCIES, \$4.1. COMMERCIAL COMPLEX IN SHA KOK
ESTATE (PARA 12(F)) AND PILING FOR FOUNDATION OF WO CHE
(PHASE II) ESTATE, COSTING \$6 MILLION, WILL BE FINANCED
BY GOVT FROM ITS EXISTING EURO-CURRENCY STANDBY FACILITY
OR (WITH PRIOR BANK APPROVAL) FROM A COMPARABLE COMMERCIAL
FACILITY. REMAINING PROJECT COST (BOTH FOREX AND LOCAL
CURRENCY) AMOUNTING TO \$74.2 MILLION WILL BE MET FROM
GOVT'S CONSOLIDATED REVENUES.

13. OF PROCEEDS OF BANK LOAN, \$17.4 MILLION WILL BE
RELENT BY GOVT THROUGH ITS DEVELOPMENT LOAN FUND (DLF)
TO HHA ON TERMS CURRENTLY APPLICABLE TO SUCH LENDING. ON
BASIS CURRENT TERMS, HHA WOULD PAY 5 PERCENT INTEREST BUT
WOULD NOT HAVE TO REPAY PRINCIPAL. THIS ARRANGEMENT SUB-
JECT TO CHANGE IN ACCORDANCE PROPOSED FINANCIAL REFORM
PACKAGE (SEE PARA 19), AND SUCH CHANGE WOULD BE REFLECTED
IN SUBSIDIARY LOAN AGREEMENT BETWEEN BANK AND HHA.
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REMAINING \$1.1 MILLION OF BANK LOAN, I.E. FOR FINANCING
OF SCHOOLS, FIRE STATION, AND HEALTH CLINIC WILL BE
MADE AVAILABLE TO EXECUTING AGENCIES THROUGH BUDGET
ALLOCATIONS.

14. PROJECT IMPLEMENTATION SCHEDULE CALLS FOR COMPLETION
OF FIRST FLATS IN WO CHE (PHAS II) BY MARCH 1979 AND
LAST BLOCKS IN SHA KOK BY DEC 1980. IN ORDER MEET FIRST
PART OF THIS OBJECTIVE, BORROWER REQUESTED (ADB DOC. IN
19-77, DTD FEB 14, 1977) AND BANK AUTHORIZED ISSUANCE ON
NO OBLIGATION BASIS OF PREQUALIFICATION NOTICE FOR CIVIL
WORKS ON ONE OF PROJECT COMPONENTS (2129 FLATS IN WO CHE).
REMAINING ASPECTS OF PROCUREMENT WILL BE IN ACCORDANCE
BANK'S GUIDELINES. CIVIL WORKS AND BUILDING SERVICES
CONTRACTS ESTIMATED TO COST \$200,000 OR MORE, AND SUPPLY
CONTRACTS FOR ELEVATORS AND CEMENT COSTING \$100,000 OR
MORE, WILL BE AWARDED ON BASIS INTERNATIONAL COMPETITIVE
BIDDING; LESS THAN THOSE AMOUNTS, ON BASIS TENDERS OR
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QUOTATIONS FROM REASONABLE NUMBER OF SUPPLIERS FROM MORE
THAN ONE ELIGIBLE COUNTRY. CEMENT, WHICH WILL BE PROCURED
CENTRALLY BY EXECUTING AGENCIES, WILL ORIGINATE ONLY FROM
AMONG BANK'S DMCS. WITH REGARD TO OTHER MATERIALS, IN
ESTABLISHING FOREIGN CURRENCY COMPONENT TO BE FINANCED
BY BANK, ACCOUNT WAS ONLY TAKEN BY ITEMS ORIGINATING
IN BANK'S DMCS.

15. EXECUTING AGENCIES, HHA AND PWD, ARE BOTH ON WORKS PROGRESS COMMITTEE FOR SHA TIN. LATTER IS CHARIED BY DIRECTOR NEW TOWNS DEVELOPMENT DEPT WHICH AS ARM OF HK PUBLIC WORKS DEPT HAS RESPONSIBILITY FOR OVERALL PLANNING AND DEVELOPMENT OF NEW TOWNS. FOR PROJECT PURPOSES, HHA WILL BE RESPONSIBLE FOR CONSTRUCTION OF TWO HOUSING ESTATES, COMMERCIAL COMPLEX (SHA KOK), AND THE EIGHT SCHOOLS, REPRESENTING ALTOGETHER ABOUT 95 PERCENT OF PROJECT COST; PWD, THROUGH ITS ARCHITECTURAL OFFICE, FOR CONSTRUCTION OF HEALTH CLINIC AND FIRE STATION. HHA WILL OPERATE HOUSING ESTATES AND COMMERCIAL COMPLEX; HEALTH AND FIRE DEPTS WILL OPERATE HEALTH CLINIC AND FIRE STATIONS, RESPECTIVELY; AND VOLUNATRY ORGANIZATIONS ARE EXPECTED TO OPERATE SCHOOLS. BOTH HHA AND PWD WILL ESTABLISH AND SUITABLY STAFF SITE OFFICES FOR IMPLEMENTATION PURPOSES. BOTH EXECUTING AGENCIES ARE CONSIDERED SUITABLY QUALIFIED AND EXPERIENCED TO UNDERTAKE DETAILED IMPLEMENTATION OF PROJECT.

16. RENT COLLECTION PERFORMANCE OF HHA HAS BEEN SATISFACTORY; AS OF JUNE 30, 1976 ARREARS WERE ONLY 1.26 PERCENT OF RENT DUE THAT MONTH. WHILE HOUSING ORDINANCE REQUIRES THAT ESTATE REVENUES BE SUFFICIENT TO MEET RECURRENT EXPENDITURES, THIS REQUIREMENT HAS BEEN MET ONLY FOR GROUP A ESTATES WHICH FOR RENT COLLECTION PURPOSES COMPRISE ONLY 14 PERCENT OF ALL PUBLIC ESTATES (SEE PARA. 5 FOR ORIGIN OF GROUPS A AND B). IN GROUP B ESTATES, WHICH WERE LARGELY BUILT FOR RESETTLEMENT, IT PROVED IMPOSSIBLE LIMITED OFFICIAL USE

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TO EFFECT ANY INCREASE ON ORIGINAL RENTALS UNTIL DEC 1974. AS RESULT, DURING PERIOD 1973/74 - 1975/76 ESTATE EXPENDITURE AS PERCENT OF ESTATE REVENUE AVERAGED 80 PERCENT FOR GROUP A, 180 PERCENT FOR GROUP B. SITUATION HAS BEEN IMPROVING; HOWEVER, RATIONALIZATION OF RENT LEVELS IN GROUP B ESTATES WILL BE DIFFICULT. MOREOVER, THERE IS WIDESPREAD DIVERGENCE IN RENT LEVELS OWING LARGELY TO VARIATIONS IN RENTALS INHERITED FROM PREDECESSOR HOUSING AGENCIES. IN RECOGNITION OF NEED, HHA HAS AGREED FORMULATE, SUBJECT TO BANK REVIEW AND COMMENT, A COMPREHENSIVE RENTAL POLICY, TAKING INTO ACCOUNT COST OF ACCOMMODATION, COMPARABLE MARKET RENTS, AND TENANTS' RENT-PAYING CAPACITY, BY 31 MARCH 1978. UPGRADED RESEARCH AND STATISTICS SECTION (PARA. 7) WILL HAVE KEY ROLE IN FORMULATION OF NEW POLICY.

17. DEFICITY ON GROUP B ESTATES (PARA. 17) AS WELL AS CERTAIN NEXT EXPENDITURES INCURRED BY HHA ON BEHALF OF GOVT, HAS BEEN COVERED BY GOVT SUBSIDY. WITH THIS ASSISTANCE AND UPWARD TEND OF SURPOLUS ON GROUP A ESTATES, HHA'S

OPERATING INCOME HAS RISEN SINCE 1973/74, REACHING HK\$30 MILLION IN 1975/76 (US\$6.1 MILLION EQUIVALENT). OPERATING INCOME IS TRANSFERRED TO GENERAL REVENUE RESERVE USED FOR CAPITAL EXPENDITURE. AT 31 MAR 1976, RESERVE FUND WAS AT HK\$131 MILLION.

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18. SOME 70 PERCENT OF HHA ASSETS AND LIABILITIES RELATE TO HOUSING STOCK TRANSFERRED FROM PREDECESSOR HOUSING AGENCIES (PARA. 5). IN ORDER TO REMOVE ANY DOUBTS CONCERNING STATUS OF THIS LIABILITY, AND OTHERWISE TO RATIONALIZE ITS FINANCIAL OPERATIONS, HHA HAS AGREED TO EFFECT BY 1 JULY 1977 A PACKAGE OF REFORMS. PACKAGE WOULD RESULT IN FOLLOWING:

(A) HHA WOULD HAVE FORMALIZED EQUITY STRUCTURE, WITH AUTHORIZED AND PAID-IN CAPITAL;

(B) EXISTING LIABILITY FOR HOUSING STOCK WOULD BE CONVERTED TO EQUITY;

(C) PAST DRAWINGS FROM DLF WOULD BE CONVERTED TO EQUITY AND FUTURE DRAWINGS MADE SUBJECT TO REPAYMENT OF PRINCIPAL;

(D) HHA WOULD BE EXPECTED TO COVER DEFICIT ON GROUP B ESTATES.

MISSION BELIEVES REFORM ALONG THESE LINES WOULD, BESIDES

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STRENGTHENING FINANCIAL STRUCTURE, CREATE MORE RESPONSIBLE AND ACCOUNTABLE APPROACH TO PLANNING, AND ESTABLISH BASIS FOR BORROWING IN CAPITAL MARKETS.

19. BALANCED URBAN DEVELOPMENT OF NEW TOWNS HAS BEEN ACCORDED HIGH PRIORITY BY HK GOVT. PROPOSED PROJECT WOULD ALLEVIATE CONGESTION, INCREASE THE STOCK OF PUBLIC HOUSING, AND PROVIDE ADDITIONAL LOW-COST DWELLING SPACE FOR LOW-INCOME GROUPS. BANK IS PERSUADED NOT ONLY THAT LOW-COST PUBLIC HOUSING PROGRAM IS ESSENTIAL FOR HK, BUT THAT THERE EXISTS NO FEASIBLE ALTERNATIVE TO DEVELOPMENT IN NEW TERRITORIES. MANY OF ANTICIPATED BENEFITS OF PROJECT, SUCH AS REDUCED CRIME RATE, IMPROVED HEALTH, ETC., COULD NOT BE QUANTIFIED. BASED ONLY ON THE HOUSING COMPONENT AND USING CONCEPT OF IMPUTED RENTS, MISSION ESTIMATES 12 PERCENT ECONOMIC RATE OF RETURN. FINANCIAL RATE OF RETURN (FIRR) IS ESTIMATED AT: (A) 6 PERCENT IF FULL COST OF PROJECT FACILITIES INCLUDING COST OF LAND IS TAKEN INTO ACCOUNT; (B) 8 PERCENT IF LAND IS MADE AVAILABLE (AS IS THE CASE CURRENTLY) AT 10 PERCENT OF MARKET VALUE; (C) 9 PERCENT IF GOVT IS RESPONSIBLE FOR FULL COST OF LAND (AS CONTEMPLATED UNDER PROPOSED FINANCIAL REFORM PACKAGE).

20. ADB BOARD DECISION OF MAR 3, 1977 STATED THAT FOR COUNTRIES WITH PER CAPITA INCOME EXCEEDING \$850 AT END-1972 (OR \$1075 AT END-1975) MATURITY PERIOD OF LOANS APPROVED ON OR AFTER JAN 1, 1977 WOULD NOT EXCEED 15 YEARS INCLUSIVE OF 3 YEAR GRACE PERIOD. CONSIDERING SOCIALLY-ORIENTED NATURE OF PROJECT, RELATIVELY LOW FIRR, AND IMPOSSIBILITY OF AMORTIZING HOUSING COMPONENT OF LOAN THROUGH RENTAL INCOME WITHIN EVEN 20 YEARS (WITHOUT PROHIBITIVELY HIGH RENTAL INCREASES), MANAGEMENT SEES GOOD CASE FOR 15 YEAR AMORTIZATION. HOWEVER, HK GOVT BELIEVES 13 YEAR AMORTIZATION IS ACCEPTABLE, AS THIS WOULD ACCORD WITH EXISTING TERMS ON SEA-WATER LIMITED OFFICIAL USE

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DESALTING PROJECT (LOAN NO. 234-HKG).

21. IF APPROVED, PROPOSED LOAN WOULD BE BANK'S THIRD TO HONG KONG, INCLUDING SHA TIN SEWAGE TREATMENT LOAN APPROVED OCT 1975 (LOAN NO. 234-HK), AND WOULD BE BANK'S FIRST LOAN FOR AN INTEGRATED URBAN DEVELOPMENT PROJECT

WITH A HOUSING COMPONENT. APPROVAL OF LOAN BY GOVT OF UNITED KINGDOM, WHICH PURSUANT TO ARTICLE 3.3 OF BANK'S ARTICLES OF AGREEMENT CARRIES WITH IT UK GOVT'S RESPONSIBILITY FOR HK LOAN OBLIGATIONS, IS EXPECTED AFTER BOARD APPROVAL AND BEFORE SIGNING OF LOAN DOCUMENTS. IN VIEW OF THE IMPORTANT SOCIAL AND ECONOMIC BENEFITS TO ACCRUE TO A LARGELY LOW-INCOME POPULATION, USADB SUPPORTS PROPOSED PROJECT AND RECOMMENDS FAVORABLE NAC ACTION.

22. REQUEST AMCONSUL HONG KONG COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, DEVELOPMENT LOANS, URBAN DEVELOPMENT
Control Number: n/a
Copy: SINGLE
Sent Date: 30-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977MANILA04611
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770108-0662
Format: TEL
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977037/aaaaaftz.tel
Line Count: 615
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Message ID: 72d5bab9-c288-dd11-92da-001cc4696bcc
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Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 12
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3139436
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN FOR SHA TIN URBAN DEVELOPMENT PROJECT (HONG KONG) SUMMARY: ADB MANAGEMENT PROPSSES \$20.5 MILLION EQU
TAGS: EAID, EFIN, HK, ADB
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/72d5bab9-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009